The Commonwealth of Massachusetts

EXECUTIVE OFFICE OF HEALTH AND HUMAN SERVICES

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Boston, Massachusetts 02108

WILLIAM F. WELD
GOVERNOR
CHARLES D. BAKER
SECRETARY

July 13, 1994

MEMO TO: Interested Parties

FROM: Charles D. Baker, Secretary, EOHHS

RE: Health and Human Services - Not a Budget Buster

Between FY 1988 and FY 1991, EOHHS deserved to be called a Budget Buster. While the state budget grew by about 18 percent during this period, EOHHS spending grew by over 40 percent. Medicaid spending grew by almost 70 percent over the same three-year period.

EOHHS was, in fact, a drain on the state budget. While state tax revenue grew by $725 million from FY 1988 to FY 1991, the EOHHS draw on state tax revenues - that is, the amount of new state tax revenue EOHHS agencies needed to fund existing operations - grew by $815 million over the same period of time. This meant EOHHS agencies absorbed more funds than the state generated in new tax revenue over this three-year period. This, in turn, created enormous strain on the rest of the state budget, which resulted in cutbacks everywhere else, as well as a number of borrowings that were required to fund basic operations.

At the time, conventional wisdom said the runaway growth of the EOHHS budget could not be brought under control without pursuing a number of severe measures:

-- Eliminate the SSI Supplemental Payment program;
-- Eliminate the Medicaid Medically Needy program;
-- Eliminate all Optional Benefits under Medicaid;
-- Close the Soldier's Homes;
-- Shut down community-based residential services;
-- Eliminate almost all prevention programs.

Virtually all of these recommendations appeared in one budget document or another during FY 1991, but while many were discussed at length, none were ever enacted.

Halfway through FY 1991, the Weld/Cellucci Administration took office. It pursued a different agenda for EOHHS:

-- Managed Care for Medicaid;
-- Facility Consolidation;

-- Revenue Maximization;
-- Re-Structuring of General Relief;
-- More Prevention Programs;
-- More Community-Based Residential Services;
-- Administrative Consolidation.

As depicted in the attached charts and graphs, the results have been dramatic. From FY 1991 through FY 1994, state spending grew by about 16 percent, while EOHHS spending grew by only 12 percent. Over the same period of time, the EOHHS draw on new tax revenues dropped from 110 percent from FY 1988 to FY 1991 to 3 percent from FY 1991 to FY 1994. In part, this decline took place because the total growth in EOHHS spending fell from 40 percent over the 1988 to 1991 period to 12 percent from FY 1991 through FY 1994. EOHHS also utilized aggressive federal revenue collections to support almost all of the growth in spending that took place at EOHHS over this period of time.

More specifically, EOHHS spending grew by about $730 million - or 12 percent - from FY 1991 through FY 1994, while EOHHS agencies collected an additional $680 million in federal revenue. This meant the EOHHS draw against $1.6 billion in new state revenue was less than $50 million - or about 3 percent of the growth in tax revenues. This means that virtually the entire increase in state tax revenue that took place between FY 1991 and FY 1994 was able to support other activities, such as K-12 and higher education, public safety, local aid, transportation and MWRA rate relief.

EOHHS was also able to make significant financial commitments to community-based services, children's services and prevention services during this time by managing the growth in Medicaid spending, consolidating the EOHHS facility system, and re-structuring the General Relief program.

Community spending, which grew by 20 percent from FY 1988 through FY 1991, grew by 51 percent from FY 1991 through FY 1994. This was due in large part to the implementation of the Facility Consolidation Commission's recommendations, which re-allocated over $200 million out of DMH, DMR and DPH institutions and into the community. DMH's housing agenda over this period has been particularly prolific. While DMH developed 600 new residential beds in the community between FY 1988 and FY 1991, the Department more than doubled that number between FY 1991 and FY 1994, developing over 1,300 new community beds during this period.

The increase in children's spending was due, in part, to the passage of K-12 education reform, which reversed a downward trend in state support for K-12 education by increasing spending by about $300 million in FY 1993 and FY 1994. Including K-12 spending as part of a larger calculation on children's spending was first initiated by the Mass. Taxpayer's Foundation, which noted a number of years ago that K-12 spending was falling during the late 1980s - which it called a dis-investment in children.

Spending on EOHHS children's programs also increased from FY 1991 through FY 1994 - by over 15 percent.

Prevention spending, which was cut in the late 1980s, has increased by almost 50 percent since FY 1991. Massachusetts is now the only state in the country to fully fund its WIC and Early Intervention programs for all eligible recipients, and has made major strides in AIDS education, treatment and prevention services. In addition, DPH is spending another $60 million on the Tobacco Control Program, which is funded by a 25 cents per pack increase in the sales tax on cigarettes.

Perhaps the most dramatic changes have taken place at the Department of Public Welfare and the Division Medical Assistance. While total spending on both grew by about 50 percent between FY 1988 and FY 1991, spending fell to a more stable rate of 12 percent between FY 1991 and FY 1994. In addition, the net state cost of the two actually fell by 4 percent over the same period.

Put another way, DPW and DMA require $90 million less in state tax revenues to operate their programs today than they did in FY 1991. Their combined net state cost declined from $2.227 billion in FY 1991 to $2.134 billion in FY 1994, after increasing - on a net state cost basis - by over $700 million between FY 1988 and FY 1991.

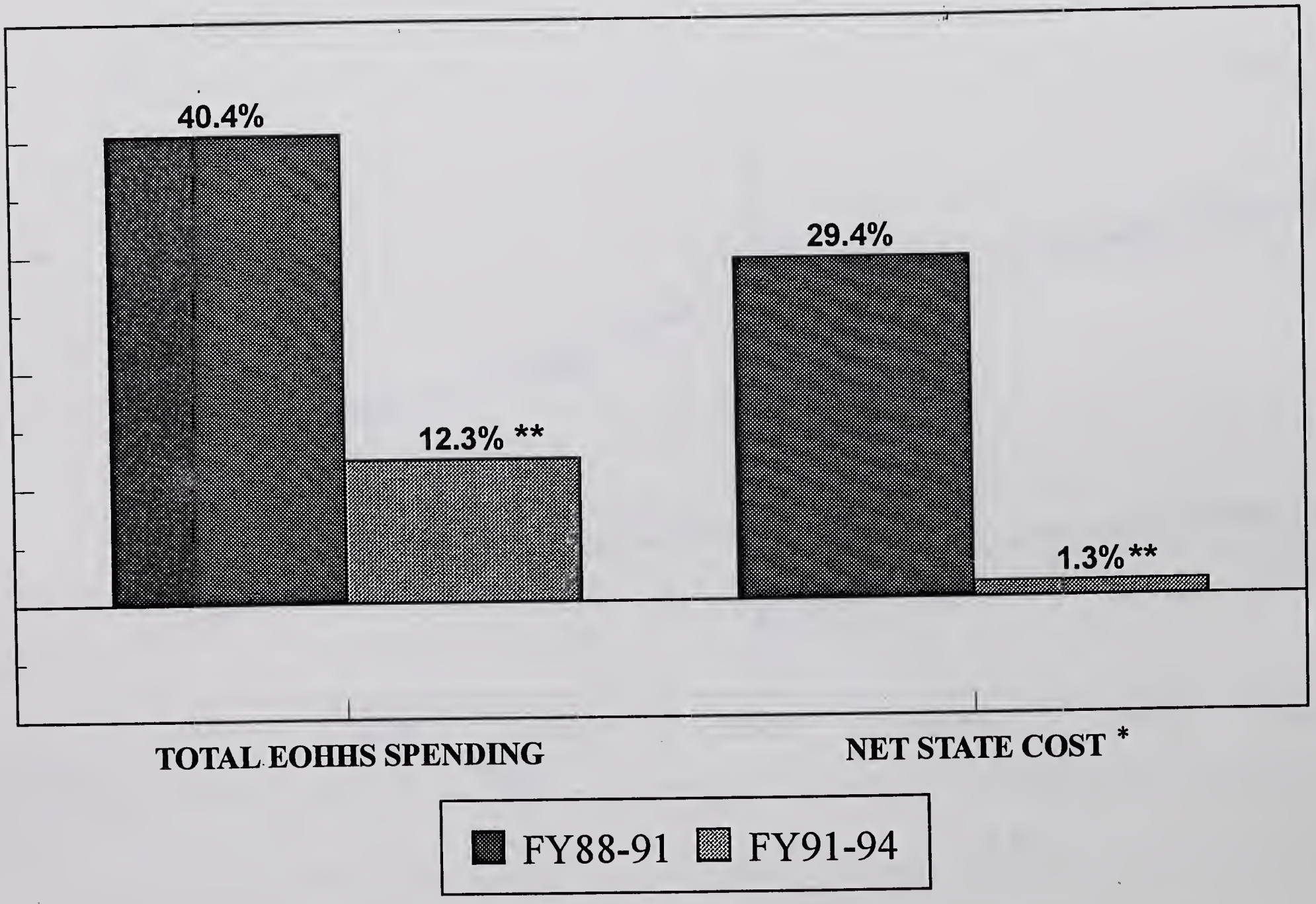
Finally, the Departments of Social Services, Mental Health and Mental Retardation have all engaged in aggressive revenue maximization efforts over the past three years, while at the same time, limiting their growth in overall spending to just below the rate of inflation. In fact, DSS and DMH cost less today, on a net state cost basis, than they did in 1989 - a testament to the aggressive efforts in both agencies to pursue available non-tax revenues. DMR's capacity to access federal funds to support additional community-based services has also been enhanced by its ability to secure a 2176 home and community-based waiver from the Health Care Financing Administration.

Conclusion

In an era of tight and, in many cases, diminishing resources, agencies made forward-thinking decisions that have made it possible for Massachusetts to enhance its commitment to community-based services, children, and prevention, while at the same time, bringing a chaotic fiscal situation under control.

Many people continue to believe that EOHHS and its agencies are busting the state budget. This is simply not true. Hopefully, perception will eventually catch up with reality.

HEALTH & HUMAN SERVICES SPENDING GROWTH



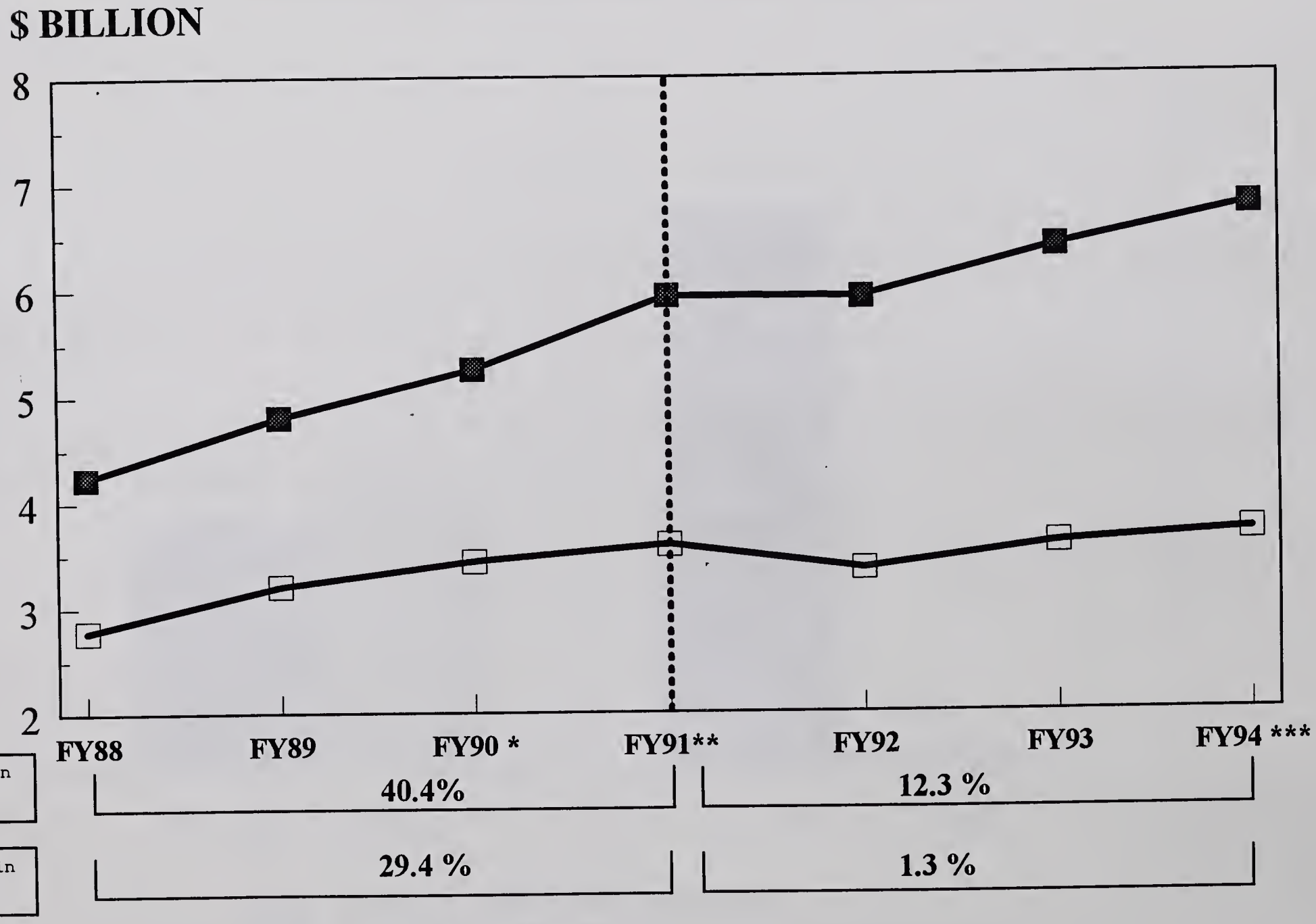
HHS-ABC1.PRE

* EXCLUDES THE $513 DISPROPORTIONATE SHARE INITIATIVE FROM FY91 BASE

** EXCLUDES SMOKING PREVENTION AND CESSATION SPENDING, ($61M)

HEALTH and HUMAN SERVICES

BUDGETARY SPENDING vs NET STATE COST



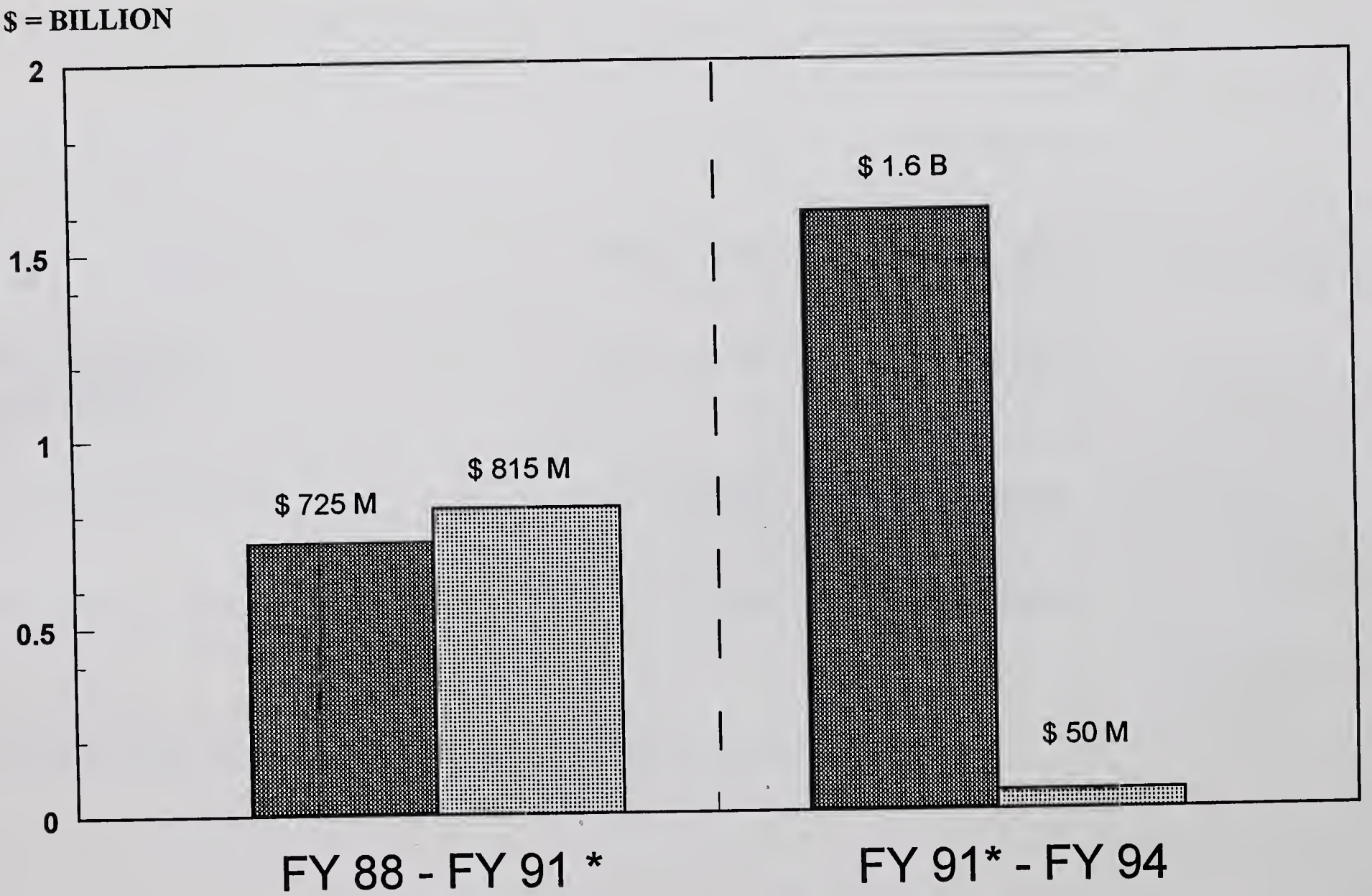
* Includes $488M in Bond Spending

** Excludes the $513m Disproportionate Share Initiative

*** Excludes Smoking Prevention and Cessation Spending, ($61M)

EXECUTIVE OFFICE of HEALTH & HUMAN SERVICES

EOHHS Agencies' Draw on New State Tax Revenues



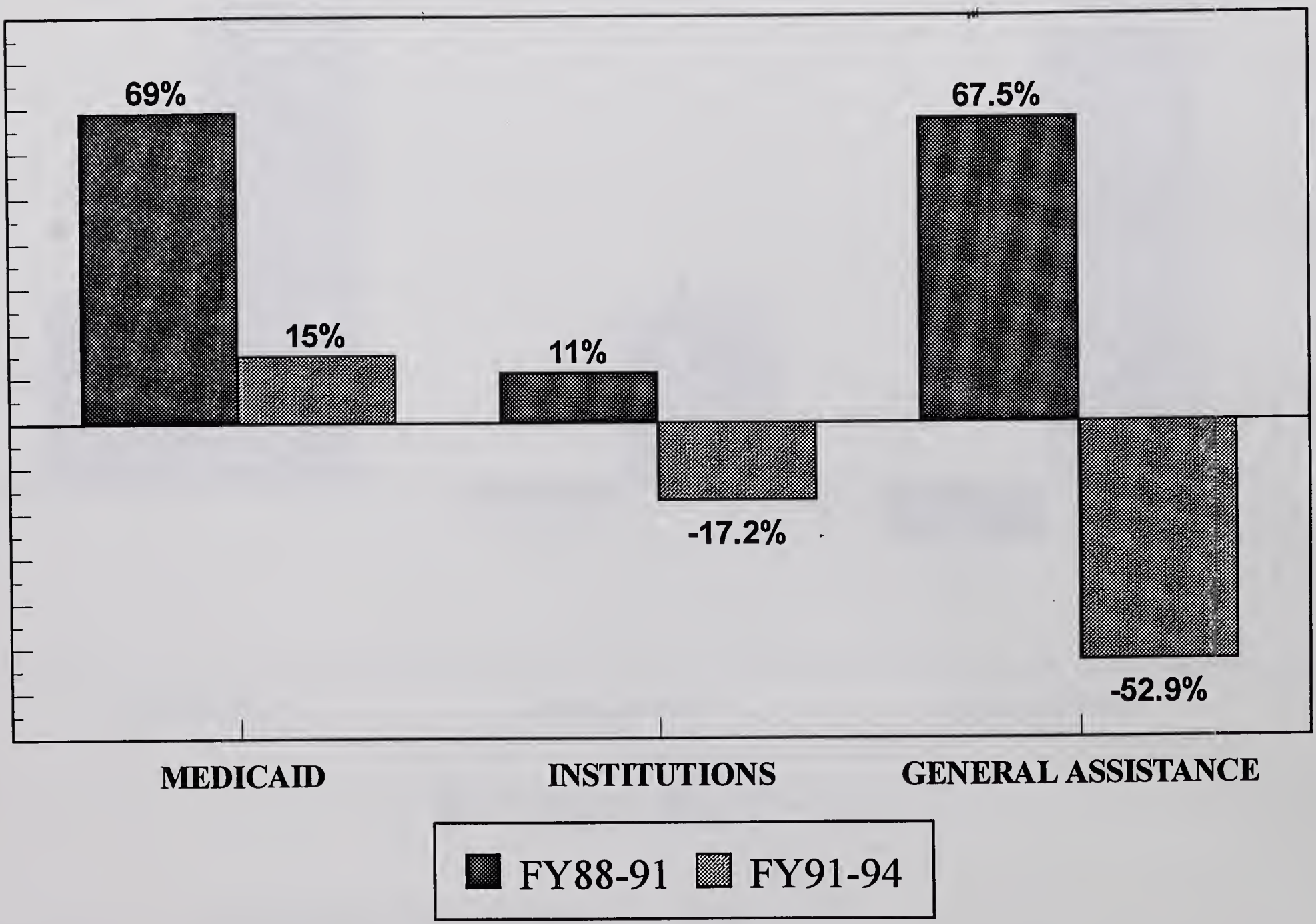
* Does not Include $513 M in Federal Disproportionate Share Funding

EXECUTIVE OFFICE OF HEALTH AND HUMAN SERVICES
SUMMARY COMPARISON FY88-91 VS FY91-FY94

	FY88 - FY91	FY91 - FY94
INCREASE IN HHS SPENDING	$1,709,047,000	$728,918,000
	*	*
INCREASE IN HHS NONTAX REVENUE	$893,929,000	$680,977,000
INCREASE IN NET STATE COST OR HHS DRAW ON OVERALL STATE BUDGET	$815,118,000	$47,941,000
INCREASE IN STATE TAX REVENUES	$724,446,000	$1,609,699,000
% HHS DRAW ON OVERALL STATE BUDGET	112.52%	2.98%

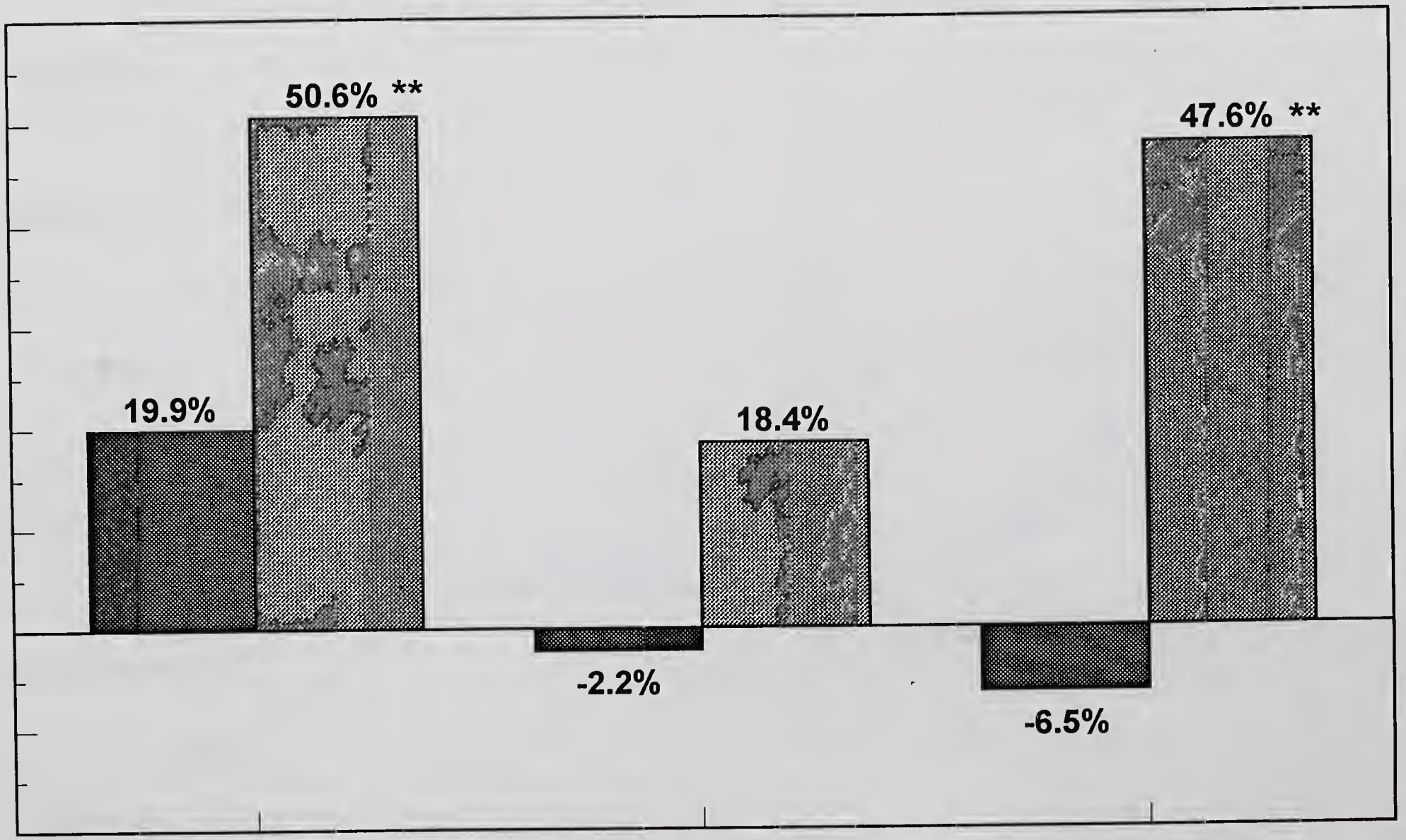
* EXCLUDES THE ADDITIONAL $513M DISPROPORTIONATE SHARE FUNDING FROM FY91

HEALTH & HUMAN SERVICES SPENDING GROWTH



HHS-ABC2.PRE

HEALTH & HUMAN SERVICES SPENDING GROWTH



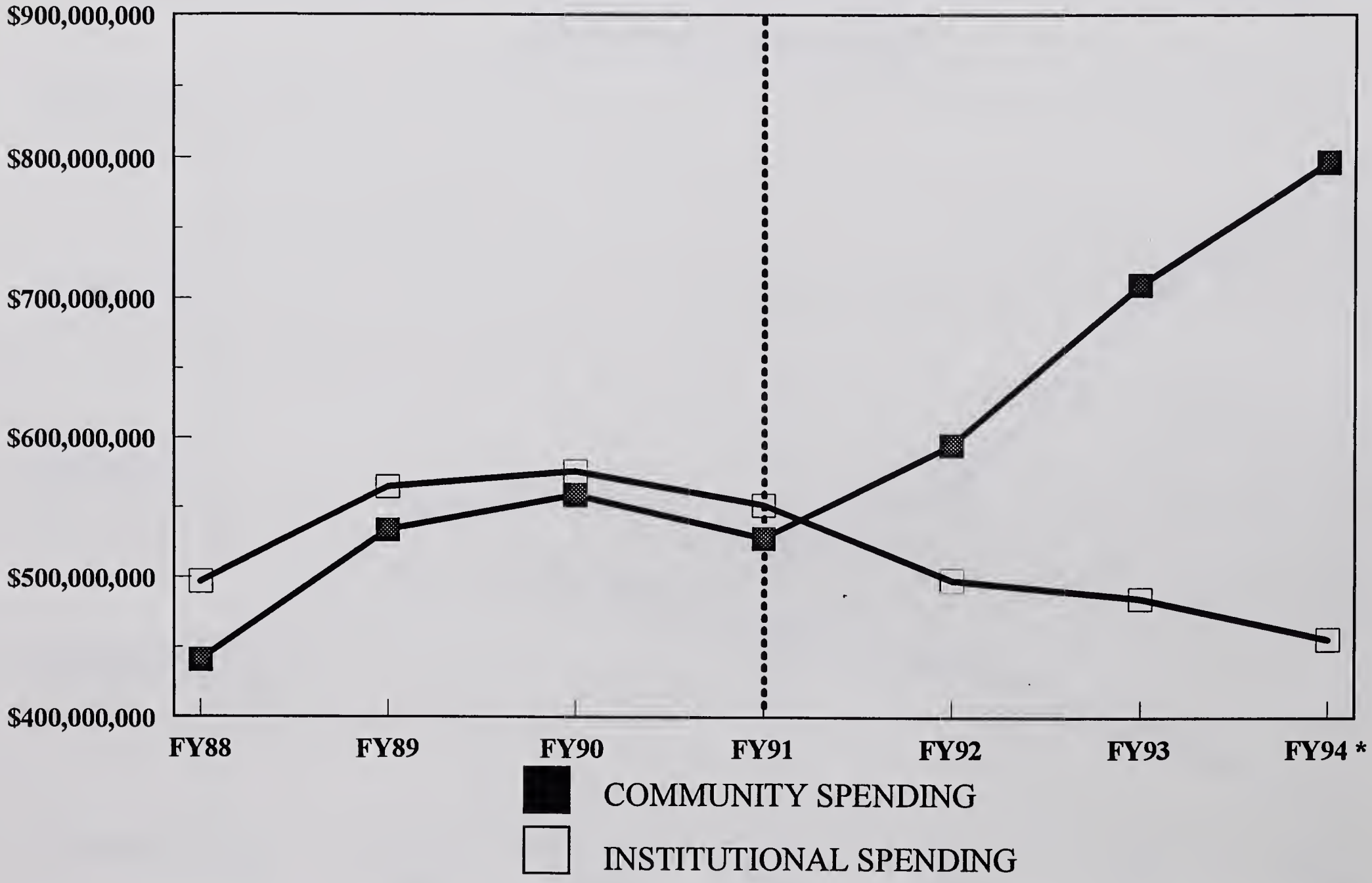
* INCLUDES LOCAL SPENDING ON EDUCATION

** EXCLUDES SMOKING PREVENTION AND CESSATION SPENDING, ($61M)

HHS-ABC3.PRE

COMMUNITY vs INSTITUTIONAL SPENDING

HEALTH & HUMAN SERVICES TOTALS

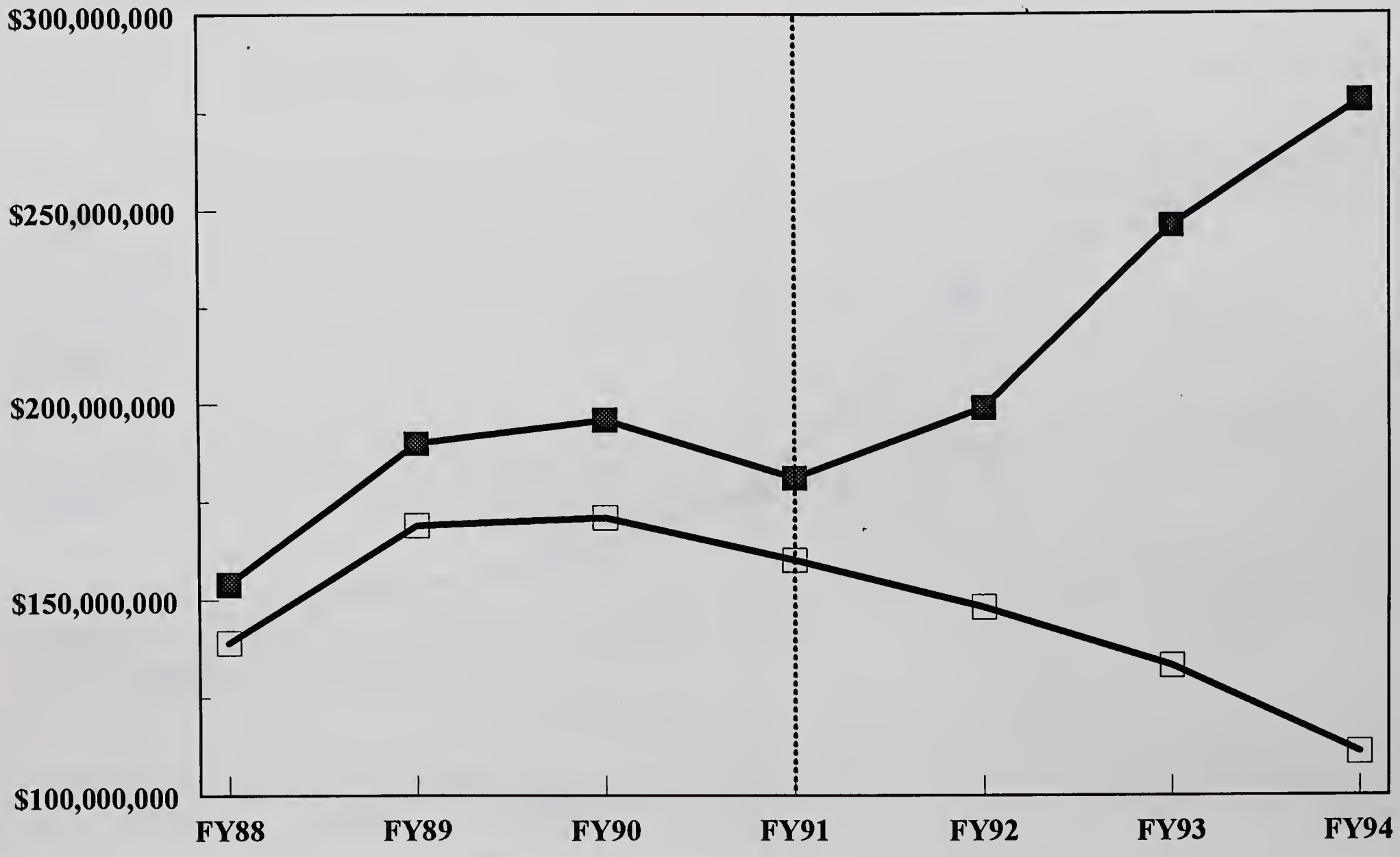


* Excludes Smoking Prevention and Cessation Spending, ($61M)

H&HS-TOT.PRE

COMMUNITY vs INSTITUTIONAL SPENDING

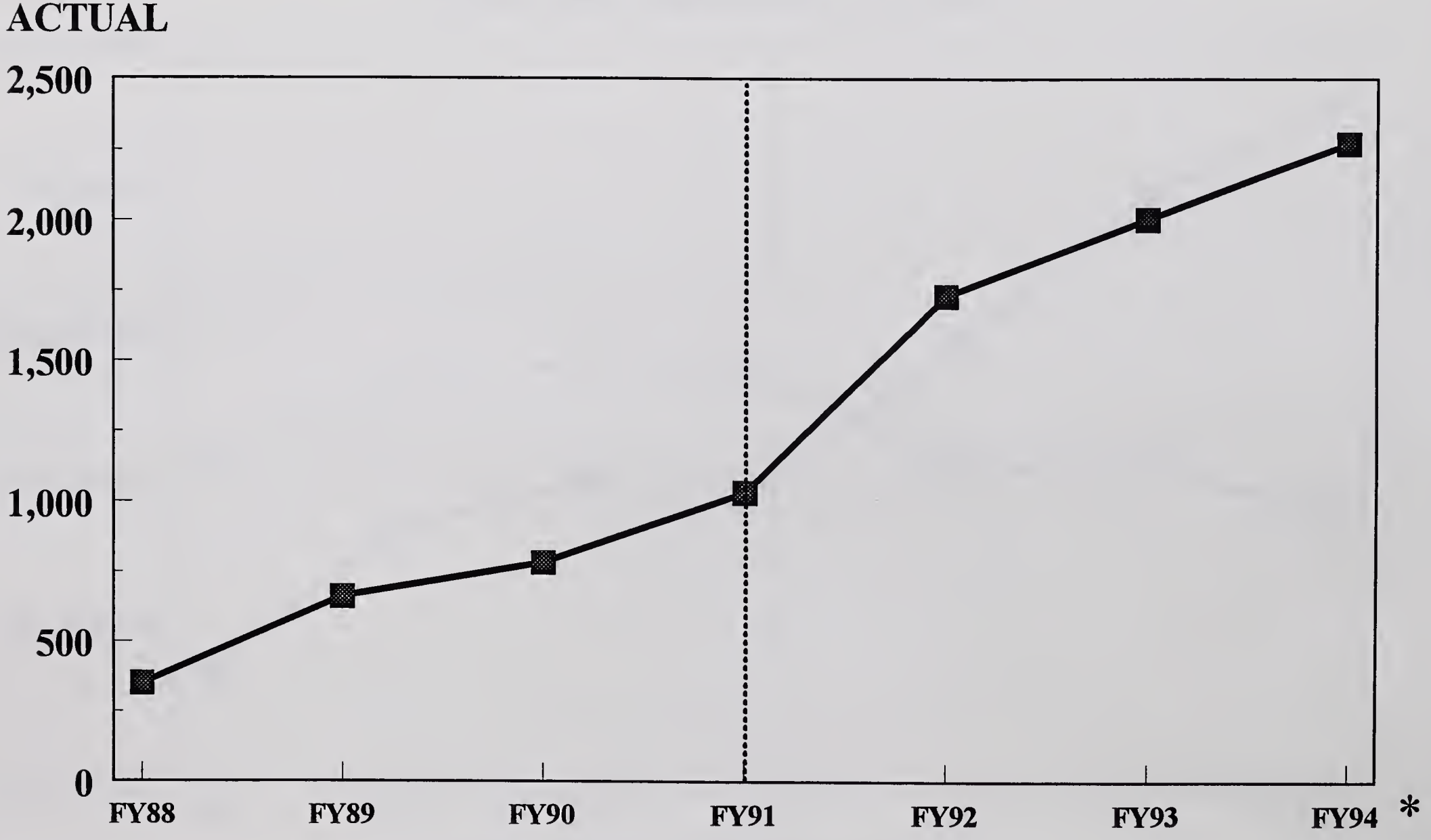
MENTAL HEALTH



MEN-HLTH.PRE

DMH RESIDENTIAL HOUSING

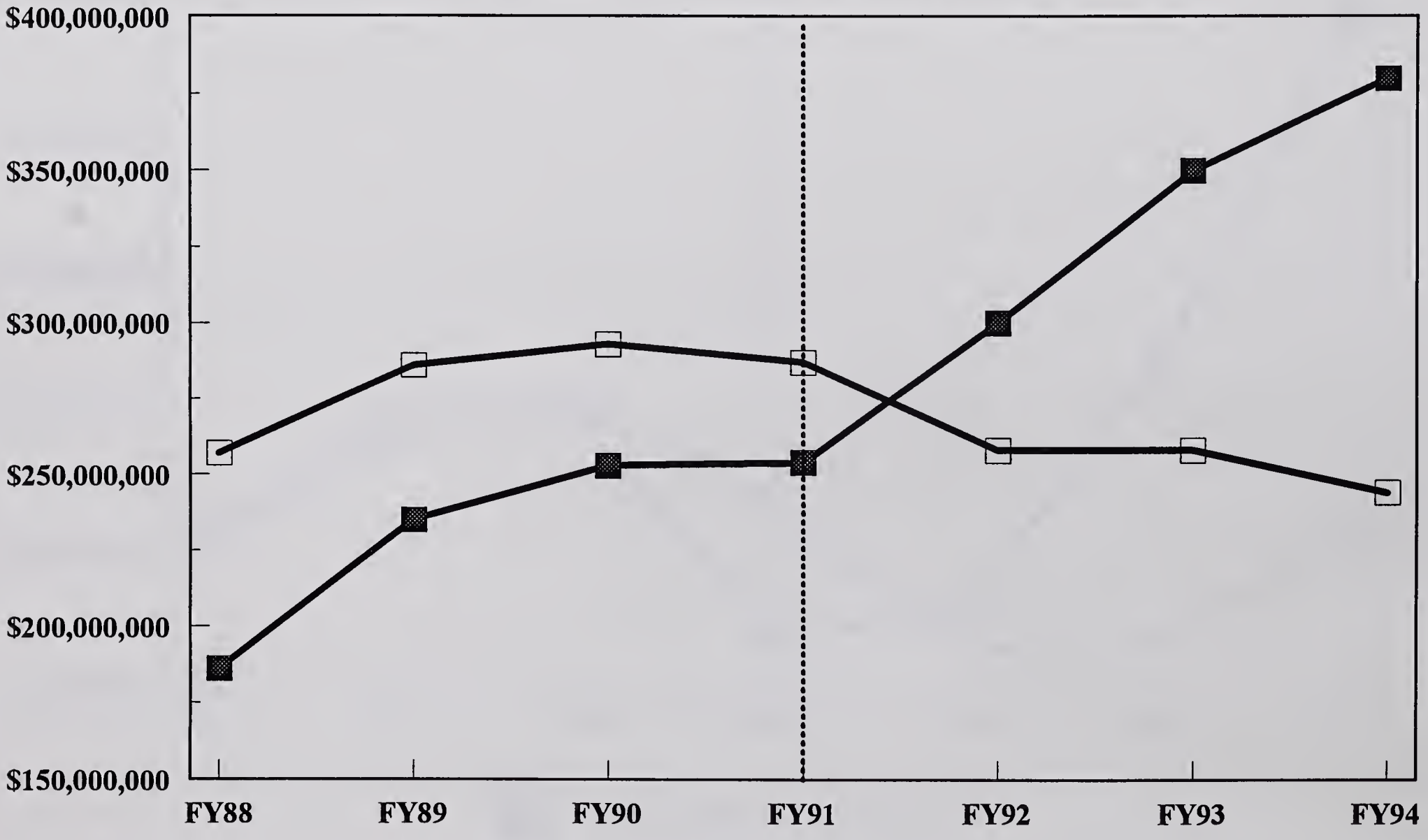
of RESIDENTIAL BEDS



* TO DATE, STILL IN DEVELOPMENT

COMMUNITY vs INSTITUTIONAL SPENDING

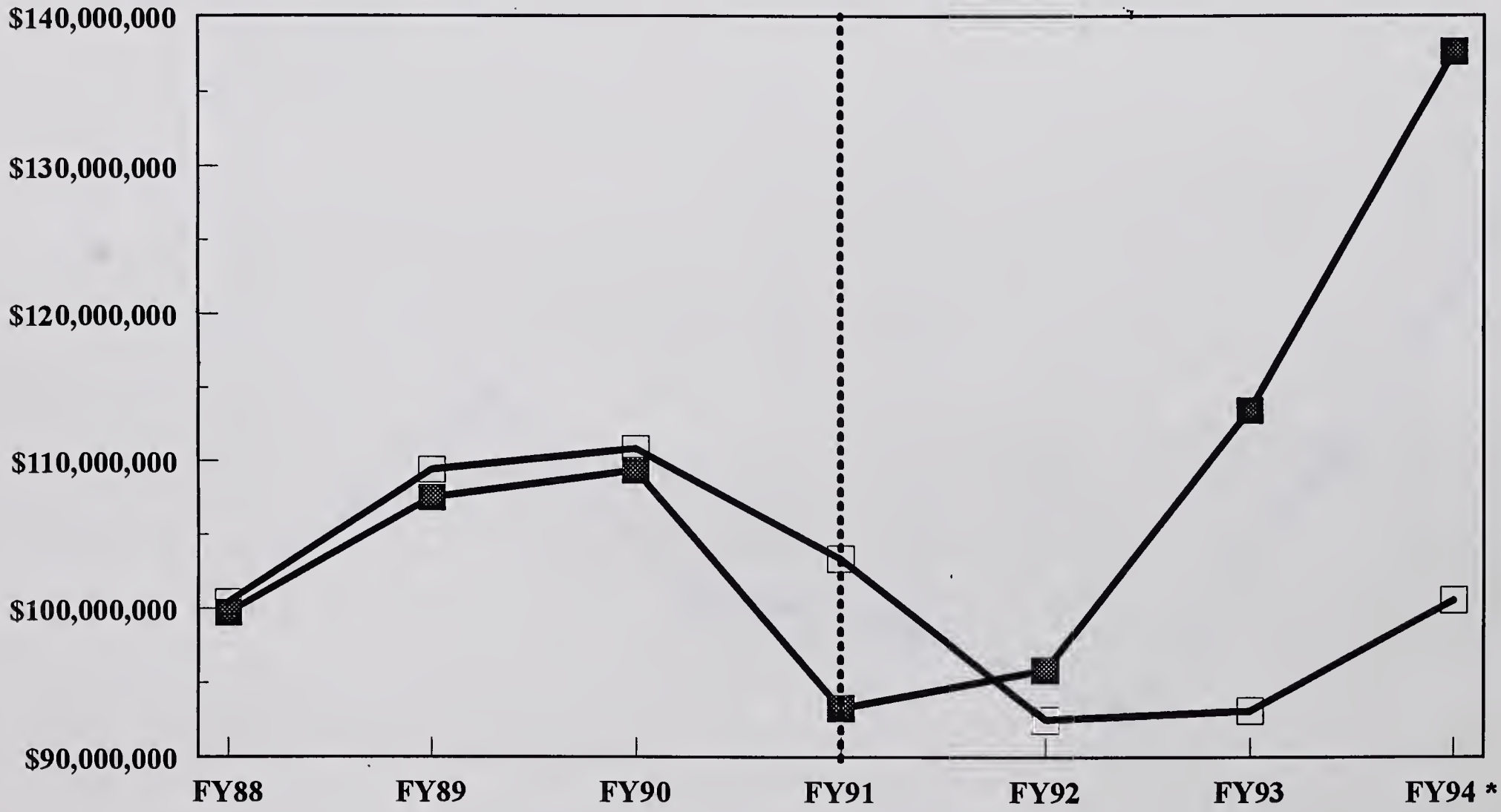
MENTAL RETARDATION



MEN-RTRD.PRE

COMMUNITY vs INSTITUTIONAL SPENDING

PUBLIC HEALTH

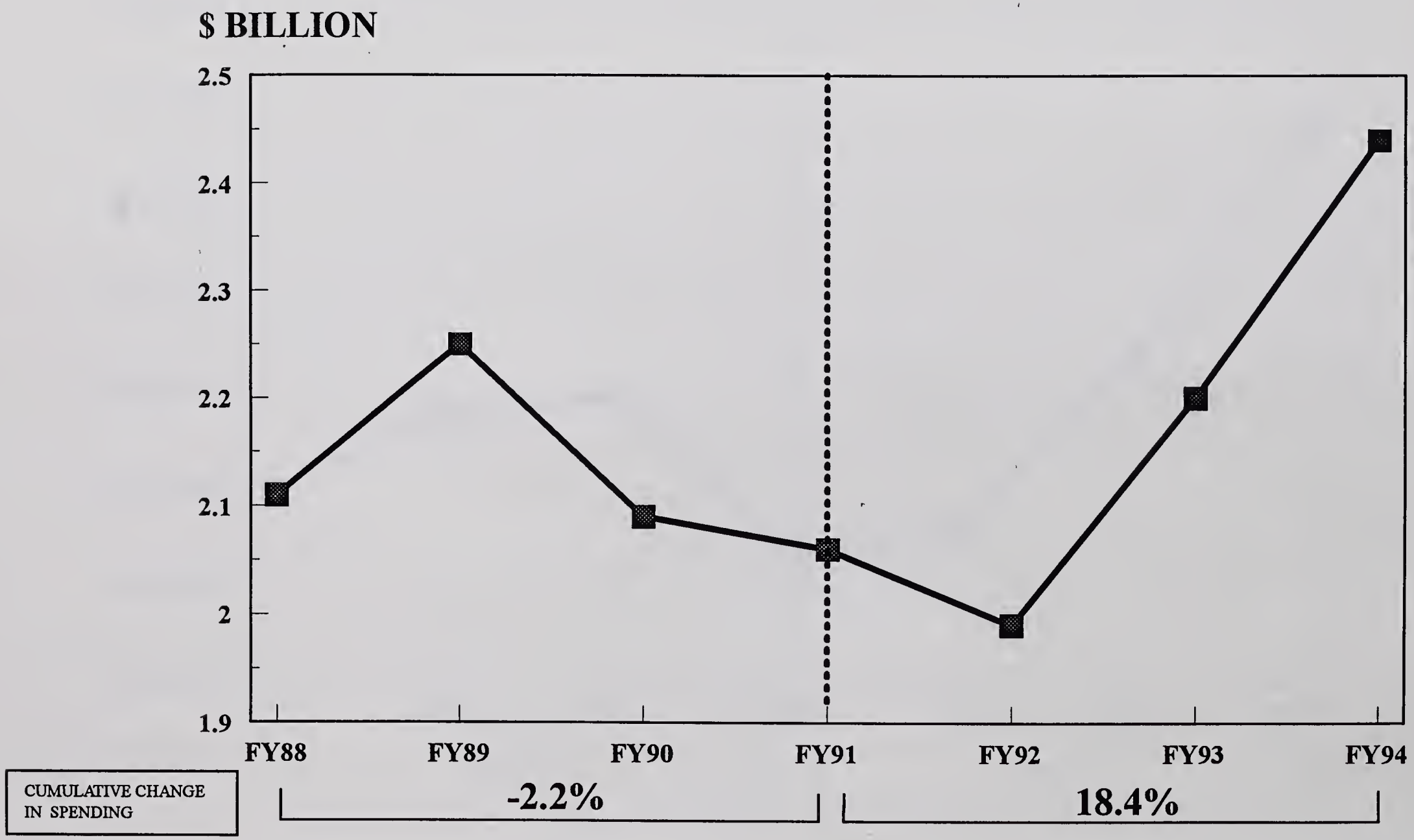


COMMUNITY SPENDING

INSTITUTIONAL SPENDING

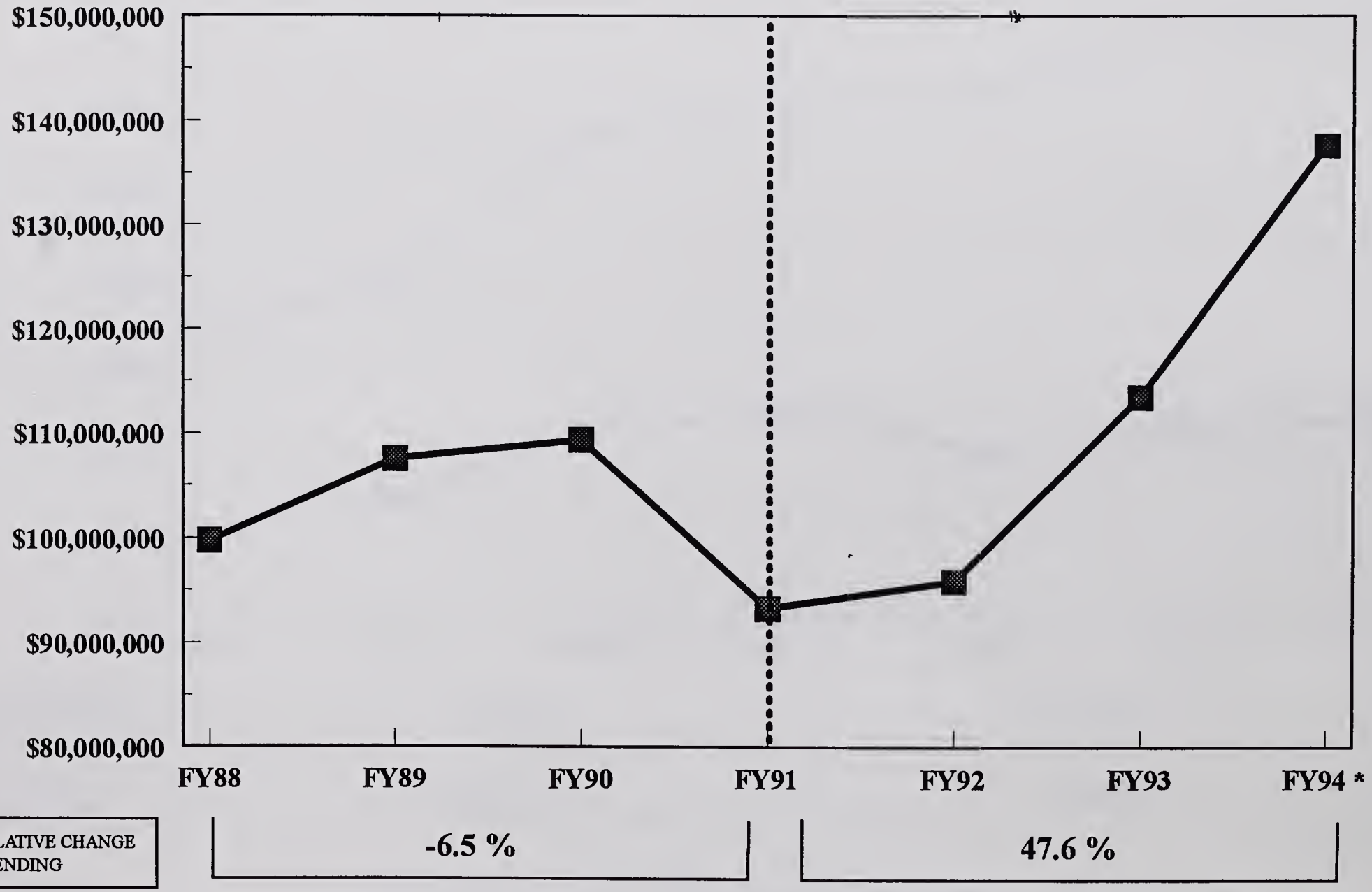
* EXCLUDES SMOKING PREVENTION AND CESSATION SPENDING, $61M

STATEWIDE INVESTMENT IN CHILDREN



INVEST.PRE

DPH PREVENTION



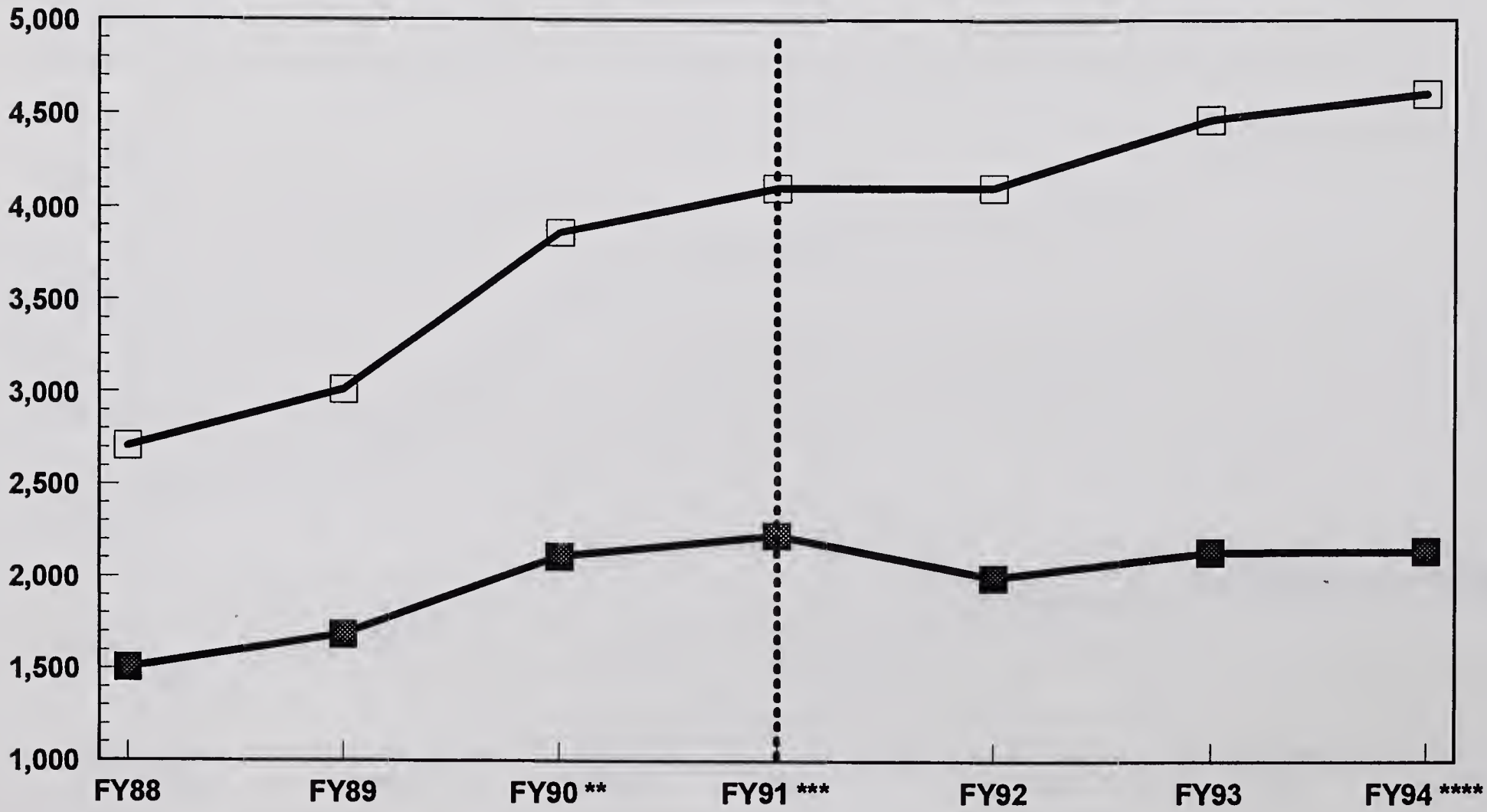
* EXCLUDES SMOKING PREVENTION AND CESSATION SPENDING, ($61m)

PREVENT.PRE

EXECUTIVE OFFICE of HEALTH & HUMAN SERVICES

SPENDING / NET STATE COST - WELFARE / DIVISION of MEDICAL ASSISTANCE *

$ = BILLION



☐	CUMULATIVE GROWTH in BUDGETARY SPENDING	52.2%	12.3%
■	CUMULATIVE GROWTH IN NET STATE COST	48.1%	-4.0%

* Includes MCB Medicaid spending and revenue

** Includes $488m in Bond Spending

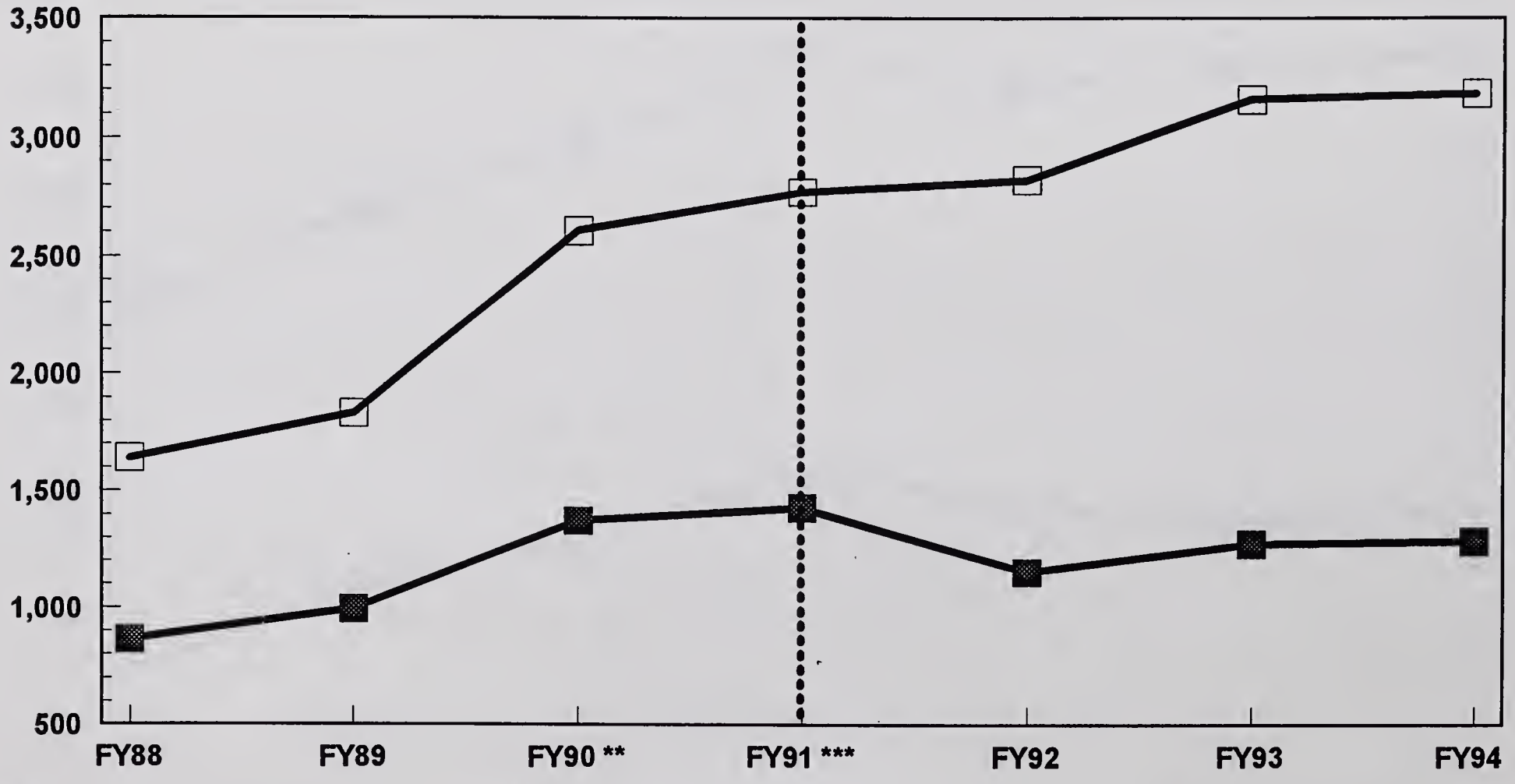
*** Excludes the $513m Disproportionate Share Initiative from FY91 base

**** Includes Daycare spending appropriated at EOHHS

EXECUTIVE OFFICE of HEALTH & HUMAN SERVICES

SPENDING / NET STATE COST - MEDICAID PROGRAM *

$ = BILLION



CUMULATIVE GROWTH in BUDGETARY SPENDING	69.0%	14.9%
CUMULATIVE GROWTH in NET STATE COST	65.5%	-10.0%

* Includes MCB Medicaid spending and revenue

** Includes $488m in Bond Spending

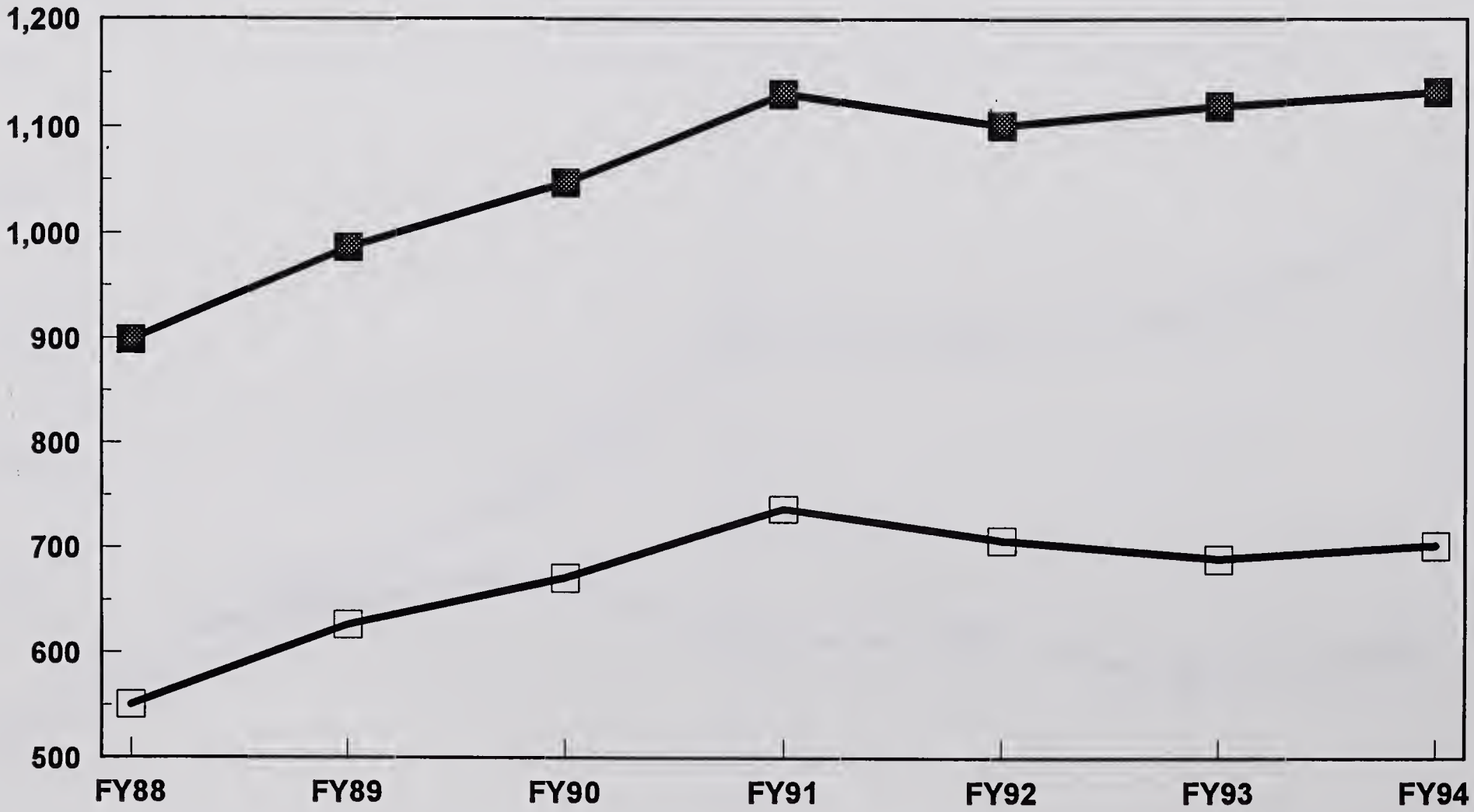
*** Excludes the $513m Disproportionate Share Initiative from FY91 base

NSC-MEDA.PRE

EXECUTIVE OFFICE of HEALTH & HUMAN SERVICES

SPENDING/NET STATE COST - WELFARE PROGRAMS *

$ = BILLION



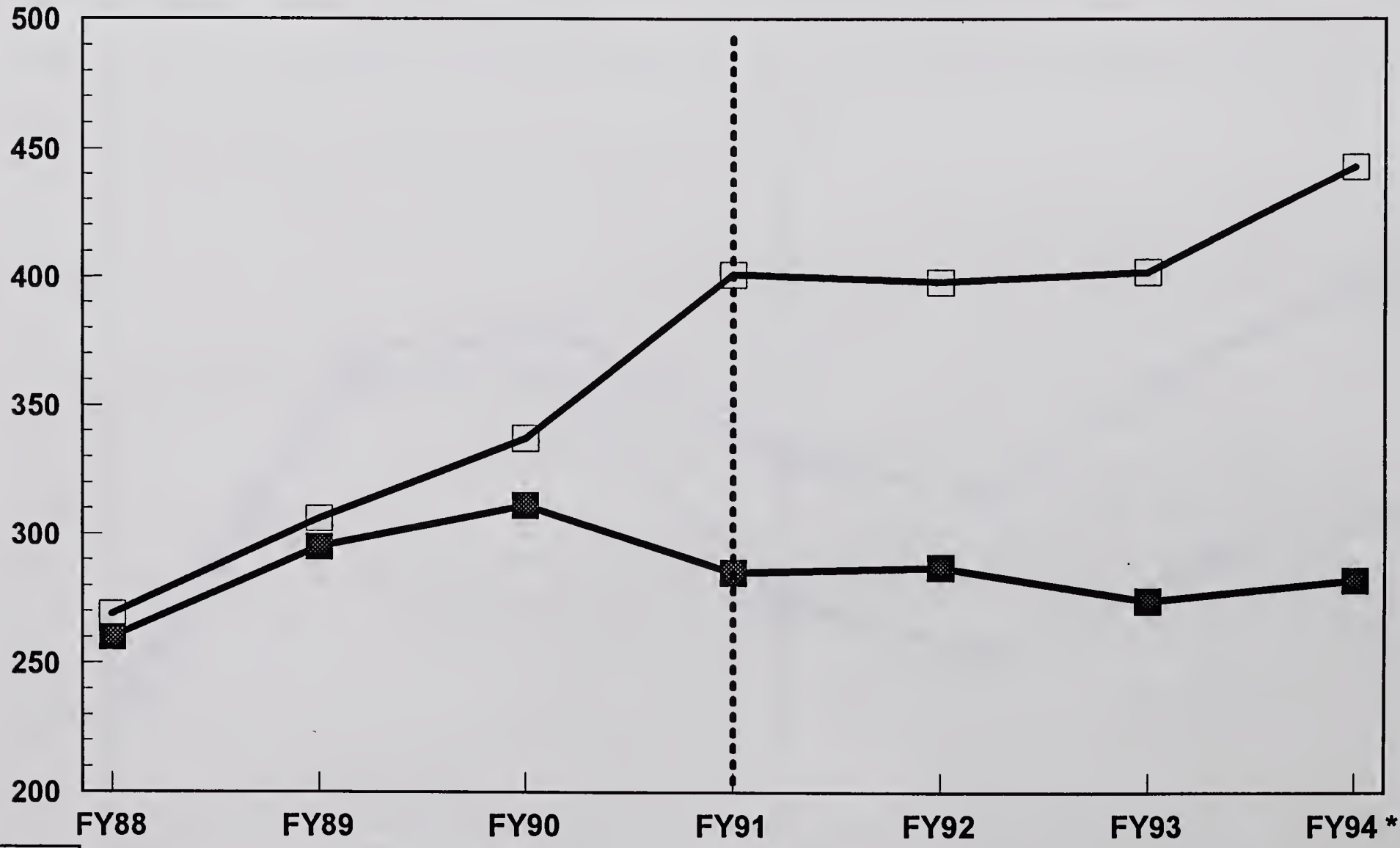
□	CUMULATIVE GROWTH in BUDGETARY SPENDING	25.9%	.1%
■	CUMULATIVE GROWTH in NET STATE COST	33.8%	-4.8%

*** INCLUDES: FOOD STAMPS; AFDC; EMERGENCY ASSISTANCE; SSI; EAEDC; JOB TRAINING**
EXCLUDES DAY CARE SPENDING

EXECUTIVE OFFICE of HEALTH & HUMAN SERVICES

SPENDING / NET STATE COST - DEPARTMENT of SOCIAL SERVICES

$ = MILLION



CUMULATIVE GROWTH in BUDGETARY SPENDING	49.1%	10.2%
CUMULATIVE GROWTH in NET STATE COST	9.3%	-1.0%

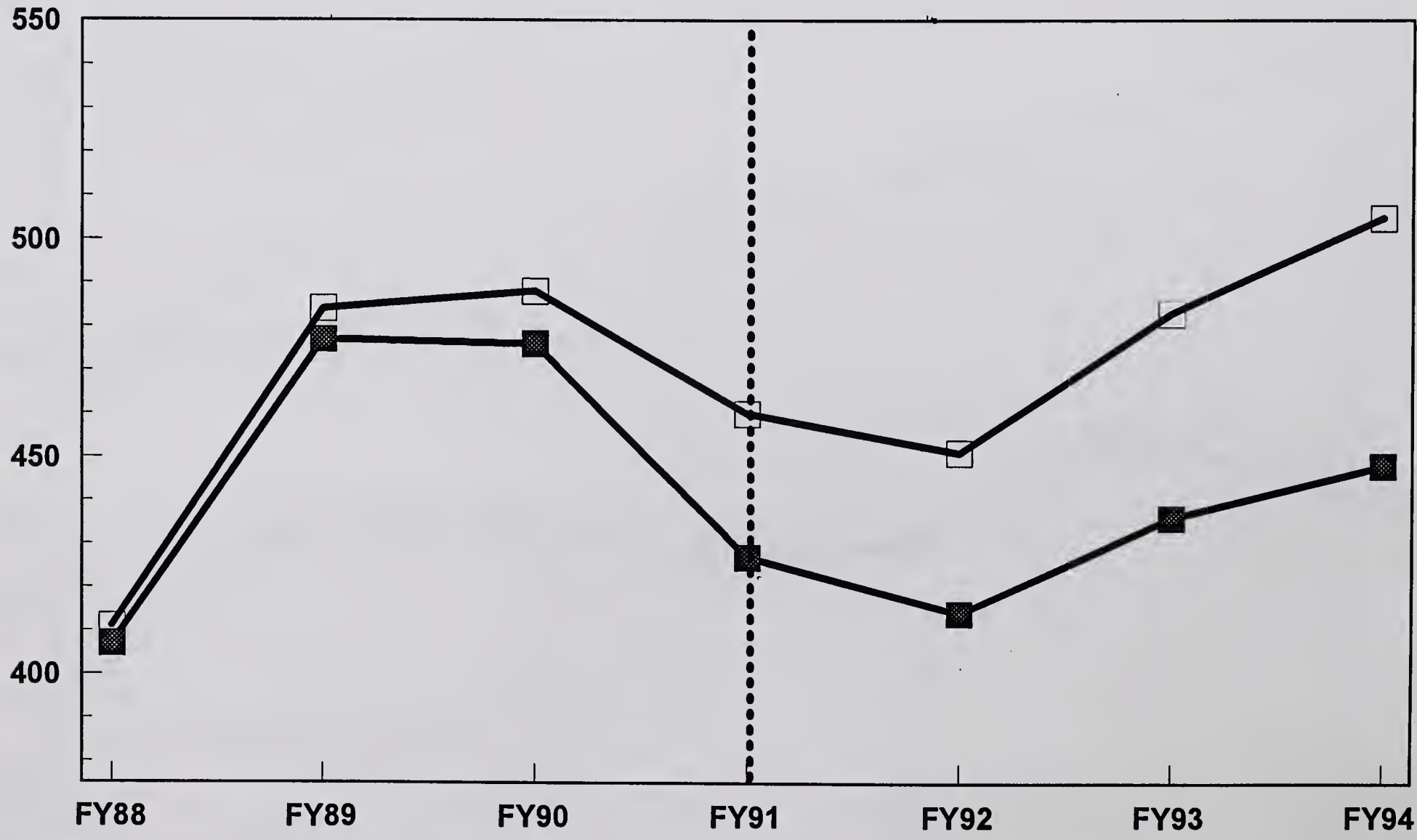
* INCLUDES DAYCARE SPENDING APPROPRIATED AT E0HHS

NSC-SOCL.PRE

EXECUTIVE OFFICE of HEALTH & HUMAN SERVICES

SPENDING / NET STATE COST - DEPARTMENT of MENTAL HEALTH

$ = MILLION



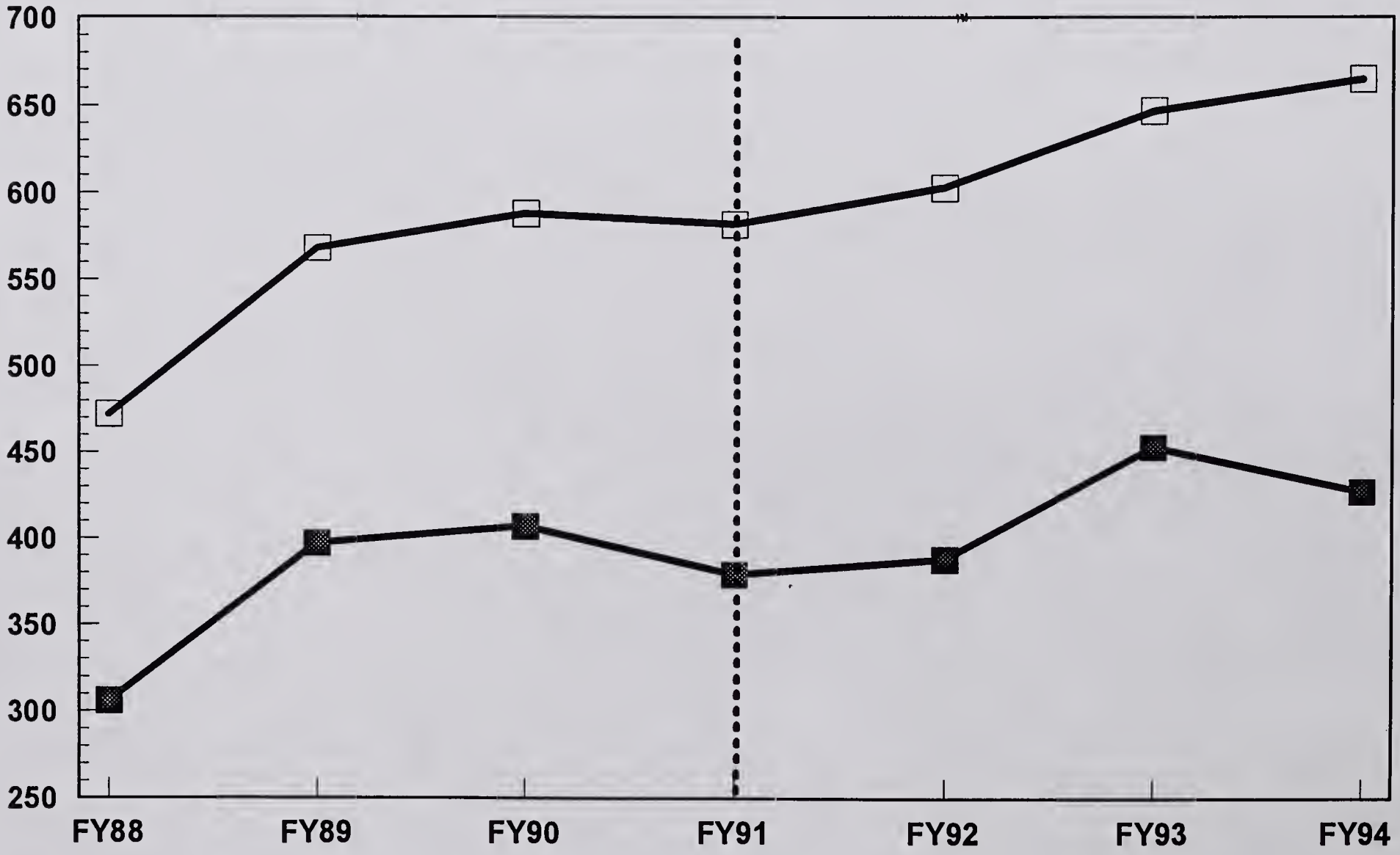
□	CUMULATIVE GROWTH in BUDGETARY SPENDING	12.2%	9.6%
■	CUMULATIVE GROWTH in NET STATE COST	5.0%	4.9%

NSC-MHLT.PRE

EXECUTIVE OFFICE of HEALTH & HUMAN SERVICES

SPENDING / NET STATE COST - DEPARTMENT of MENTAL RETARDATION

$ = MILLION



☐	CUMULATIVE GROWTH in BUDGETARY SPENDING	23.6%	14.1%
■	CUMULATIVE GROWTH in NET STATE COST	23.2%	12.6%